

available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CHX-94-22 and should be submitted by April 27, 1995.

Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-CHX-94-22) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35554; File No. SR-CHX-94-26]

Self-Regulatory Organizations; The Chicago Stock Exchange, Incorporated; Order Approving Proposed Rule Change Relating to Implementation of a Three-Day Settlement Standard

March 31, 1995.

On November 30, 1994, the Chicago Stock Exchange, Incorporated ("CHX") filed a proposed rule change (File No. SR-CHX-94-26) with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act").¹ On December 14, 1994, CHX filed an amendment to the proposed rule change.² Notice of the proposal was published in the **Federal Register** on January 4, 1995, to solicit comments from interested persons.³ The Commission received one written comment.⁴ As discussed below, this order approves the proposed rule change.

I. Description

In October 1993, the Commission adopted Rule 15c6-1 under the Act

which will become effective June 7, 1995.⁵ The rule establishes three business days after the trade date ("T+3"), instead of five business days ("T+5"), as the standard settlement cycle for most securities transactions. Several of the CHX's rules are interrelated with settlement timeframes. The purpose of the proposed rule change is to amend CHX's rules consistent with a T+3 settlement standard for securities transactions.

Article XX, Rule 9 will define regular way transactions as requiring delivery on the third business day after the trade date. Seller's option trades will settle not less than four business days nor more than sixty days following the day of the contract. Trades made for "next day" may include delivery on the first or second business day following the day of the contract. The proposed rule change also will eliminate references to the fourth and fifth full business day preceding the final day for subscription contained in Rule 9.

Article XXVII, Rule 1 will provide that stock transactions shall be ex-dividend or ex-rights two business days preceding the record date. With respect to record dates on other than a business day, stock transactions will be ex-dividend or ex-rights three business days preceding the record date.

Article XXVII, Rule 2 will require stock transactions to be ex-warrant on the second business day preceding the date of expiration of the warrants. When warrant expiration occurs on other than a business day, the ex-warrant period will begin on the third business day preceding the expiration date.

Article XXX, Rule 15 will require all claims involving erroneous comparisons to be made within two business days of the original trade date. Claims which concern the omission of a report will need to be made within two business days of the date the order should have been executed. Claims relative to a lack of comparison of a reported transaction will need to be made within two business days of the original trade.

CHX has requested that the proposed rule change become effective on the same date as Rule 15c6-1. Rule 15c6-1 is scheduled to become effective on June 7, 1995. The transition from T+5 settlement to T+3 settlement will occur over a four day period.⁶

⁵ Securities Exchange Act Release Nos. 33023 (October 6, 1993), 58 FR 52891 (adopting Rule 15c6-1) and 34952 (November 9, 1994), 59 FR 15917 (changing effective date from June 1, 1995, to June 7, 1995).

⁶ Friday, June 2, will be the last trading day with five business day settlement. Monday, June 5, and Tuesday, June 6, will be trading days with four business day settlement. Wednesday, June 7, will be

II. Written Comment

The Commission received one comment letter from Thomson Trading Services, Inc. ("Thomson") suggesting that additional regulatory changes may be necessary to implement T+3 settlement.⁷ Thomson believes that the CHX should amend Article XV, Rule 5 which requires the use of the facilities of a securities depository for confirmation and acknowledgement of all depository-eligible transactions.

III. Discussion

The Commission believes the proposal is consistent with the requirements of Section 6 of the Act.⁸ Specifically, Section 6(b)(5) states that the rules of the exchange must be designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information. The CHX rules and other self-regulatory organizations' rules currently establish the standard time frame for settlement of securities transactions. On June 7, 1995, the new settlement cycle of T+3 will be established, as mandated by the Commission's Rule 15c6-1. As a result, the CHX's current rule establishing a T+5 settlement cycle will be inconsistent with the Commission rules. This proposal will amend the CHX's rules to harmonize them with a T+3 settlement cycle.

In addition, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act in that it protects investors and the public interest by reducing the risk to clearing corporations, their members, and public investors which is inherent in settling securities transactions. The reduction of the time period for settlement of most securities transactions will correspondingly decrease the number of unsettled trades in the clearance and settlement system at any given time. Thus fewer unsettled trades will be subject to credit and market risk, and there will be less time between trade execution and settlement for the value of those trades to deteriorate.⁹

the first trading day with three business day settlement. As a result, trades from June 2 and June 5 will settle on Friday, June 9. Trades from June 6 and June 7 will settle on Monday, June 12.

⁷ Letter from P. Howard Edelstein, President, Electronic Settlements Group, Thomson Trading Services, Inc., to Jonathan G. Katz, Secretary, Commission (January 25, 1995).

⁸ 15 U.S.C. 78f (1988).

⁹ The adopting release stated, "the value of securities positions can change suddenly causing a market participant to default on unsettled positions. Because the markets are interwoven through common members, default at one clearing

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¹³ 15 U.S.C. 78s(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b) (1988).

² Letter From David Rusoff, Foley & Lardner, to Christine Sibille, Senior Attorney, Office of Securities Processing, Division of Market Regulation, Commission (December 16, 1994).

³ Securities Exchange Act Release No. 35155 (December 27, 1994), 60 FR 517.

⁴ Letter from P. Howard Edelstein, President, Electronic Settlements Group, Thomson Trading Services, Inc., to Jonathan G. Katz, Secretary, Commission (January 25, 1995).

While the Thomson letter supports the CHX's efforts to shorten the settlement cycle for securities transactions, Thomson believes that the CHX should amend Article XV, Rule 5, which requires the use of the facilities of a securities depository for the confirmation and acknowledgement of all depository-eligible transactions whereby payment for securities purchased or delivery of securities sold is to be made to or by an agent of the customer. The Commission believes that the issue raised by the Thomson letter need not be resolved prior to the approval of the proposed rule change. Discussions regarding Thomson's concerns are underway among the Commission, Thomson, DTC, and the Securities Industry Association. The Commission will continue to work with the industry to address Thomson's concerns. However, if the proposed rule change is not approved prior to the June 7, 1995, effective date of Rule 15c6-1, the CHX rules will conflict with the Commission Rule 15c6-1.

The Thomson letter suggests that approval of the proposed rule change without amendments to Article XV, Rule 5 raises competitive concerns. Under the Act, the Commission's responsibility is to balance the perceived anticompetitive effects of a regulatory policy or decision against the purpose of the Act that would be advanced by the policy or decisions and the costs associated therewith. The Commission notes that the anticompetitive effects pointed to by Thomson, if in fact there are any anticompetitive effects, are not caused by the proposed rule change approved by this order but rather by an existing CHX rule. The Commission is reviewing Thomson's claim but does not believe that approval of this proposal will itself create any burdens on competition. Moreover, as discussed above, the rule advances fundamental purposes under the Act, namely the efficient clearance and settlement of securities.

IV. Conclusion

For the reasons stated above, the Commission finds that CHX's proposal is consistent with Section 6 of the Act.¹⁰

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-

CHX-94-26) be and hereby is approved, effective June 7, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35557; File No. SR-GSCC-94-10]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Relating to Implementing a Comparison Service for Repurchase and Reverse Repurchase Transactions Involving Government Securities as the Underlying Instrument

March 31, 1995.

On December 30, 1994, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-94-10) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on February 2, 1995.² No comment letters were received regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

GSCC is amending its rules to provide comparison services for repurchase and reverse repurchase transactions involving government securities as the underlying instrument ("repos"). GSCC ultimately intends to provide comparison, netting, and risk management services for the opening ("on") and closing ("off") legs of all overnight repos (also referred to as next-day repos), term repos (also referred to as forward settling repos), and open repos, including the same-day settling aspects of those repos.³

GSCC will offer its repo services in three phases. The first phase will involve the provision of comparison and

netting services. The pending proposal would authorize GSCC to implement the initial stage of the first phase, which is the provision of comparison services for overnight and term repos whether or not the on leg occurs before, on, or after the submission date.⁴ GSCC will accept and compare data on all of the components of a repo transaction, including information on the on and off legs of a repo, with members providing such data via a single input. The second implementation phase of GSCC's planned repo services will focus on the provision of comparison, netting, and risk management services for open repos. The last phase of GSCC's planned implementation of repo services will focus on providing intraday netting and risk management services for the same-day settling aspects of repo transactions, including settlement of same-day settling start legs and close-outs of open repos.

The Phase 1 comparison process for repos is substantially similar to the comparison process offered by GSCC today. Each party to a repo will submit its transaction data to GSCC.⁵ As is the case now for non-repo transactions, comparison of a repo trade will occur immediately upon the receipt by GSCC from two members of matching data. If all mandatory data fields that are required to match do in fact match, GSCC will generate a comparison.⁶

If the data on a repo remains uncompleted at end-of-day, the submitter of the repo data will receive a report of an uncompleted trade, and the participant being submitted against will receive an advisory. If a repo transaction has not yet been compared, it may be unilaterally canceled, and the submitter will receive notification of the cancellation. To cancel a repo that has

⁴ GSCC will file proposed rule changes for the authority to implement both the next stage of the first phase of repo services, which is the provision of netting and risk management services for the non-same-day settling aspects of next-day and forward settling repo transactions, and future phases of repo services.

⁵ The proposed rule change establishes a new schedule of required data submission items applicable to all trades. In addition to the items on the schedule of required match data, a member must submit the broker reference number, contra submitting member's executing firm, executing firm, external reference number, price (rate), pricing method, and trade date. These fields are not matched.

⁶ The following items must match for a trade to compare: (1) Contra member identifying information, (2) CUSIP number, (3) member's identifying number, (4) par amount (quantity), (5) settlement amount, (6) settlement date, and (7) transaction type (*i.e.*, buy, sell, repo, or reverse). In addition, these required match data items must match only for repo transactions: (1) start amount (*i.e.*, the contract value for the start leg of the repo transaction) and (2) start date (*i.e.*, the settlement date for the start leg of a repo transaction).

¹² 17 CFR 200.30(a)(12) (1994).

¹⁵ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 35288 (January 27, 1995), 60 FR 6580.

³ GSCC also intends to include such services as the tracking of rate changes and open repo interest, the provision to the funds borrower of coupon protection, the provision to all parties of a comprehensive audit trail for their repo activity, and the monitoring and facilitation of collateral substitutions.

corporation or by a major market participant or end-user could trigger additional failures resulting in risk to the national clearance and settlement system." Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.

¹⁰ 15 U.S.C. 78f (1988).

¹¹ 15 U.S.C. 78s(b)(2) (1988).